

CITY OF SMITHVILLE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2016



SINGLETON, CLARK
& COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

CITY OF SMITHVILLE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, Members of the City Council, and Citizens of the
City of Smithville, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Smithville, Texas (the "City") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Interest and Sinking Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis section preceding the basic financial statements, the budgetary schedule following the basic financial statements and the pension related schedules following the notes to the financial statements be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

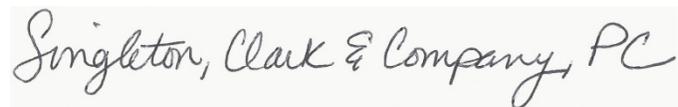
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Singleton, Clark & Company, PC
Cedar Park, Texas

March 10, 2017

CITY OF SMITHVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

As management of the City of Smithville, Texas, (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2016. Please read it in conjunction with the independent auditor's report on page 1 and the City's basic financial statements which follow this section.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$10,193,831 (*total net position*). Of this amount, \$2,760,217 represents unrestricted net position, which may be used to meet the City's ongoing obligations to citizens and creditors.
- For the year ended September 30, 2016, the City's total net position increased by \$505,783.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$1,518,205, an increase of \$328,916 in comparison with the prior year.
- At the end of the current fiscal year, unrestricted fund balance for the General Fund was \$895,453, or approximately 20% of the total General Fund expenditures before other financing sources/uses.
- At the close of the current fiscal year, the city's proprietary funds reported combined fund balance of \$5,581,062, an increase of \$88,483 in comparison with the prior year.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

CITY OF SMITHVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government; public safety; highways and streets; sanitation; culture and recreation; code enforcement and inspection; cemetery; airport; and economic development and assistance. The business-type activities of the City include electricity, water, and wastewater.

The government-wide financial statements can be found on pages 12-14 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains sixteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. Data from the other fifteen governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The City adopts an annual appropriated budget for its General Fund and Interest and Sinking Fund. A budgetary comparison statement has been provided for the General Fund on page 19 and for the Interest and Sinking Fund on page 56 to demonstrate compliance with each budget.

The basic governmental fund financial statements can be found on pages 15-19 of this report.

CITY OF SMITHVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Proprietary Funds. The City has the option of maintaining two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government wide financial statements. The City uses an enterprise fund to account for its utility operations - electricity, water, and wastewater. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among a City's functions. The City is not currently utilizing an internal service fund. Because the services provided by internal service funds predominantly benefit governmental rather than business-type functions, they are usually included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the utilities and the utility bond fund, both of which are considered to be major funds of the City. Conversely, when internal service funds are utilized, they are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are then provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The basic proprietary fund financial statements can be found on pages 20-22 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are *not* reported in the government-wide financial statements because the resources of those funds *are* not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City maintains one fiduciary fund. The *HRA Fund* is used to report resources held for City employees which may be accessed for healthcare expenses.

The fiduciary fund financial statement can be found on page 23 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 24-46 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's pension obligations. Required supplementary information can be found on pages 47-49 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions.

Combining and individual fund statements and schedules can be found on pages 50-55 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$10,193,831 at the close of the most recent fiscal year.

CITY OF SMITHVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

City of Smithville, Texas's Net Position

	Governmental Activities 2016	Governmental Activities 2015	Change	Business- Type Activities 2016	Business- Type Activities 2015	Change
Current & other assets	\$ 1,791,562	\$ 1,552,184	\$ 239,378	\$ 2,694,135	\$ 4,518,483	\$ (1,824,348)
Capital assets	5,860,707	6,084,929	(224,222)	9,783,754	6,329,368	3,454,386
Deferred outflows	290,174	103,556	186,618	124,360	44,381	79,979
Total assets and deferred outflows	7,942,443	7,740,669	201,774	12,602,249	10,892,232	1,710,017
Current liabilities	193,659	287,804	(94,145)	743,947	1,816,523	(1,072,576)
Long-term liabilities	3,056,947	3,126,028	(69,081)	6,243,355	3,526,830	2,716,525
Deferred inflows	79,068	131,368	(52,300)	33,885	56,300	(22,415)
Total liabilities and deferred inflows	3,329,674	3,545,200	(215,526)	7,021,187	5,399,653	1,621,534
Net position						
Net investment in capital assets	3,287,978	3,445,137	(157,159)	3,755,866	2,909,368	846,498
Restricted	389,770	382,334	7,436	-	-	-
Unrestricted	935,021	367,998	567,023	1,825,196	2,583,211	(758,015)
Total net position	\$ 4,612,769	\$ 4,195,469	\$ 417,300	\$ 5,581,062	\$ 5,492,579	\$ 88,483

By far, the largest portion of the City's net position approximately 70% reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position approximately 5% represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,760,217 composed of \$935,021 governmental and \$1,825,196 business-type, is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors. At the end of the current fiscal year, the City is able to report positive balances in all reported categories of net position, both for the City as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City's total net position did increase by \$505,783 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

CITY OF SMITHVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Governmental Activities. During the current fiscal year, net position for governmental activities increased by \$417,300 from the prior fiscal year for an ending balance of \$4,612,769.

Business-type Activities. During the current fiscal year, net position for business-type activities increased by \$88,483 from the prior fiscal year for an ending balance of \$5,581,062.

City of Smithville, Texas's Changes in Net Position

	Governmental Activities 2016	Governmental Activities 2015	Change	Business- Type Activities 2016	Business- Type Activities 2015	Change
Revenues:						
Program revenues:						
Charges for services	\$ 1,042,454	\$ 1,019,078	\$ 23,376	\$6,414,016	\$6,648,057	\$(234,041)
Operating grants & contributions	347,812	312,345	35,467	-	-	-
Capital grants and contributions	100,976	40,802	60,174	-	-	-
General revenues:						
Property taxes	1,176,933	1,076,208	100,725	-	-	-
Other taxes	678,859	620,930	57,929	-	-	-
Grants and contributions not restricted to specific programs	-	-	-	257,789	614,542	(356,753)
Other	325,741	243,024	82,717	75,496	314,707	(239,211)
Total revenue	3,672,775	3,312,387	360,388	6,747,301	7,577,306	(830,005)
Expenses:						
General government	417,673	458,914	(41,241)	-	-	-
Public safety	1,293,778	1,181,097	112,681	-	-	-
Highways and streets	604,717	571,681	33,036	-	-	-
Sanitation	639,588	678,851	(39,263)	-	-	-
Culture and recreation	1,044,941	1,084,440	(39,499)	-	-	-
Code enforcement and inspections	73,001	91,092	(18,091)	-	-	-
Cemetery	64,944	78,606	(13,662)	-	-	-
Airport	123,809	24,238	99,571	-	-	-
Economic development and assist.	96,437	47,492	48,945	-	-	-
Interest on long-term debt	108,587	114,013	(5,426)	-	-	-
Utility Fund	-	-	-	5,446,818	5,641,128	(194,310)
Total expenses	4,467,475	4,330,424	137,051	5,446,818	5,641,128	(194,310)
Increase (decrease) in net position before transfers	(794,700)	(1,018,037)	223,337	1,300,483	1,936,178	(635,695)
Transfers	1,212,000	1,080,000	132,000	(1,212,000)	(1,080,000)	(132,000)
Increase (decrease) in net position	417,300	61,963	355,337	88,483	856,178	(767,695)
Net position - beginning	4,195,469	4,384,042	(188,573)	5,492,579	4,743,774	748,805
Prior period adjustment	-	(250,536)	250,536	-	(107,373)	107,373
Net position - ending	\$ 4,612,769	\$ 4,195,469	\$ 417,300	\$5,581,062	\$5,492,579	\$ 88,483

CITY OF SMITHVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Financial Analysis of Governmental Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a City's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Council.

At September 30, 2016, the City's governmental funds reported combined fund balances of \$1,518,205, an increase of \$328,916 in comparison with the prior year. Approximately 60% of this amount, or \$895,453, constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of the fund balance is either *nonspendable, restricted, or committed*.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$895,453. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents 22% of total general fund expenditures, while total fund balance represents 27% of that same amount.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Utility Fund at the end of the year was \$1,825,126 and for the Utility WWTP Sewer CO 2007 Fund was \$70. The changes in net position for both proprietary funds were \$1,085,737 and (\$997,254), respectively.

General Fund Budgetary Highlights

Original budget compared to final budget. During the year the City made several no significant budget amendments. Miscellaneous revenues were amended by \$150,962, but experienced a negative variance of (\$139,130). Grant revenue and sales tax revenue were amended by \$85,633 and \$59,251 respectively. The General Fund also amended several expenditure line items. General government, Highway and streets, Public safety and Airport were increased by \$71,482, \$119,074, \$13,366 and \$10,004 respectively while Code enforcement, Sanitation, Culture and recreation and Cemetery were decreased by \$21,395, \$35,350, \$20,960, \$16,944 respectively. Overall, the General Fund's expenditures experienced a positive variance of \$27,841.

CITY OF SMITHVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Capital Assets and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2016, totals to \$5,860,707 and 9,783,754 respectively, net of accumulated depreciation. This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, and utility infrastructure. Overall, the City's capital assets decreased from prior year for governmental activities by \$224,222 and increased from the prior for business-type activities year by \$3,454,386 due to grant construction projects.

City of Smithville, Texas's Capital Assets

	Governmental Activities 2016	Governmental Activities 2015	Change
Land	\$ 664,891	\$ 563,292	\$ 101,599
Construction in Progress	130,613	-	130,613
Buildings	4,196,546	4,255,903	(59,357)
Furniture and Equipment	2,083,805	2,152,553	(68,748)
Infrastructure	4,239,113	4,239,113	-
Total	<u>11,314,968</u>	<u>11,210,861</u>	<u>104,107</u>
Less Accumulated Depreciation	<u>(5,454,261)</u>	<u>(5,125,932)</u>	<u>(328,329)</u>
Capital assets, net of depreciation	<u><u>\$ 5,860,707</u></u>	<u><u>\$ 6,084,929</u></u>	<u><u>\$ (224,222)</u></u>

	Business-type Activities 2016	Business-type Activities 2015	Change
Land	\$ 173,319	\$ 173,319	-
Construction in Progress	2,557,708	1,657,740	899,968
Furniture and Equipment	1,136,472	1,016,559	119,913
Infrastructure	13,276,035	10,536,607	2,739,428
Total	<u>17,143,534</u>	<u>13,384,225</u>	<u>3,759,309</u>
Less Accumulated Depreciation	<u>(7,359,780)</u>	<u>(7,054,857)</u>	<u>(304,923)</u>
Capital assets, net of depreciation	<u><u>\$ 9,783,754</u></u>	<u><u>\$ 6,329,368</u></u>	<u><u>\$ 3,454,386</u></u>

Additional information on the City's capital assets can be found in Note IV.D on pages 35-36 of this report.

CITY OF SMITHVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$5,720,000 (\$2,500,000 governmental activities and \$3,220,000 business-type activities). In addition, the City also reported total long-term liabilities for a capital lease, employee compensated absences and net pension liabilities.

City of Smithville, Texas Outstanding Debt

	Governmental Activities 2016	Governmental Activities 2015	Change
General Refunding Bonds	\$ 2,500,000	\$ 2,780,000	\$ (280,000)
Net Pension Liability	442,643	200,922	241,721
Compensated Absences	41,575	49,814	(8,239)
Capital Leases Payable	72,729	95,292	(22,563)
Total	<u>\$ 3,056,947</u>	<u>\$ 3,126,028</u>	<u>\$ (69,081)</u>
	Business-type Activities 2016	Business-type Activities 2015	Change
General Refunding Bonds	\$ 3,220,000	\$ 3,420,000	\$ (200,000)
Capital Leases Payable	2,807,888	-	2,807,888
Net Pension Liability	189,705	86,110	103,595
Compensated Absences	25,762	20,720	5,042
Total	<u>\$ 6,243,355</u>	<u>\$ 3,526,830</u>	<u>\$ 2,716,525</u>

The City's total bond payable decreased by \$480,000 during the current fiscal year. The primary reason for the decrease was the repayment of bond principal of \$175,000 and \$105,000 of the General Refunding Bonds Series 2005 and Series 2009 under governmental activities and repayment of \$200,000 of bond principal of General Refunding Bonds Series 2007 under business-type activities.

Additional information on the City's long-term debt can be found in Note IV.H on pages 41-45 of this report.

Economic Factors and Next Year's Budgets and Rates

The City considered many factors when setting the fiscal year 2017 budget. The City's General Fund budget for fiscal year 2017 includes expenditures of \$3,977,803 which is about a 1% increase from fiscal year 2016 total adopted expenditures. The city increased the tax rate for 2016-2017 to \$0.427560 for the General Fund and decreased the tax rate to \$0.138427 for the Interest and Sinking Fund. The overall total tax rate increased to \$0.565987 per \$100 valuation.

CITY OF SMITHVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those interested in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's business office at the City of Smithville, Texas, 317 Main Street, Smithville, Texas 78957-0449, or by calling (512) 237-3282.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF SMITHVILLE, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 521,585	\$ 703,923	\$ 1,225,508
Investments - current	721,861	1,032,092	1,753,953
Taxes receivable - delinquent	119,220	-	119,220
Allowance for uncollectible taxes	(11,922)	-	(11,922)
Accounts receivable, net	253,845	818,296	1,072,141
Grants receivable	12,438	65,006	77,444
Due from other funds	163,694	5,215	168,909
Inventories	-	46,183	46,183
Prepaid items	10,841	23,420	34,261
Capital assets, not being depreciated:			
Land	664,891	173,319	838,210
Construction in progress	130,613	2,557,708	2,688,321
Capital assets, being depreciated:			
Buildings and improvements	4,196,546	-	4,196,546
Machinery, equipment, and vehicles	2,083,805	1,136,472	3,220,277
Infrastructure	4,239,113	13,276,035	17,515,148
Accumulated depreciation	(5,454,261)	(7,359,780)	(12,814,041)
Total assets	<u>7,652,269</u>	<u>12,477,889</u>	<u>20,130,158</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pension	290,174	124,360	414,534
Total Deferred Outflows of Resources	<u>290,174</u>	<u>124,360</u>	<u>414,534</u>
LIABILITIES			
Accounts payable	49,416	364,824	414,240
Accrued salaries and benefits	95,113	33,619	128,732
Accrued liabilities	-	14,141	14,141
Retainage payable	-	21,985	21,985
Due to other funds	4,760	156,782	161,542
Accrued interest payable	27,600	56,125	83,725
Unearned revenue	2,500	-	2,500
Other current liabilities	14,270	-	14,270
Customer deposits	-	96,471	96,471
Noncurrent liabilities:			
Due within one year	313,383	356,740	670,123
Net pension liability	442,643	189,705	632,348
Due in more than one year	2,300,921	5,696,910	7,997,831
Total liabilities	<u>3,250,606</u>	<u>6,987,302</u>	<u>10,237,908</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension	79,068	33,885	112,953
Total Deferred Inflows of Resources	<u>79,068</u>	<u>33,885</u>	<u>112,953</u>
NET POSITION			
Net investment in capital assets	3,287,978	3,755,866	7,043,844
Restricted for debt service	389,770	-	389,770
Unrestricted	935,021	1,825,196	2,760,217
Total net position	<u>\$ 4,612,769</u>	<u>\$ 5,581,062</u>	<u>\$ 10,193,831</u>

The notes to the financial statements are an integral part of this statement.

CITY OF SMITHVILLE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Functions/Programs:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ 417,673	\$ -	\$ 42,834	\$ -
Public safety	1,293,778	79,593	46,248	-
Highways and streets	604,717	-	-	100,976
Sanitation	639,588	726,826	-	-
Culture and recreation	1,044,941	164,962	164,752	-
Code enforcement and inspections	73,001	29,828	-	-
Cemetery	64,944	35,485	-	-
Airport	123,809	5,760	92,878	-
Economic development and assistance	96,437	-	1,100	-
Interest	108,587	-	-	-
Total governmental activities:	<u>4,467,475</u>	<u>1,042,454</u>	<u>347,812</u>	<u>100,976</u>
Business-type activities:				
Utility Funds	5,446,818	6,414,016	-	257,789
Total business-type activities:	<u>5,446,818</u>	<u>6,414,016</u>	<u>-</u>	<u>257,789</u>
Total primary government	<u>\$ 9,914,293</u>	<u>\$ 7,456,470</u>	<u>\$ 347,812</u>	<u>\$ 358,765</u>

General revenues:

- Property taxes
- Sales taxes
- Hotel/motel taxes
- Franchise taxes
- Contributions and donations from private sources
- Investment earnings
- Gain on sale of capital assets
- Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position -- beginning

Net position -- ending

The notes to the financial statements are an integral part of this statement.

<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-Type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (374,839)	\$ -	\$ (374,839)
(1,167,937)	-	(1,167,937)
(503,741)	-	(503,741)
87,238	-	87,238
(715,227)	-	(715,227)
(43,173)	-	(43,173)
(29,459)	-	(29,459)
(25,171)	-	(25,171)
(95,337)	-	(95,337)
(108,587)	-	(108,587)
<u>(2,976,233)</u>	<u>-</u>	<u>(2,976,233)</u>
-	1,224,987	1,224,987
-	1,224,987	1,224,987
<u>(2,976,233)</u>	<u>1,224,987</u>	<u>(1,751,246)</u>
1,176,933	-	1,176,933
579,589	-	579,589
23,985	-	23,985
75,285	-	75,285
50,285	-	50,285
6,867	10,481	17,348
56,147	22,165	78,312
212,442	42,850	255,292
1,212,000	(1,212,000)	-
<u>3,393,533</u>	<u>(1,136,504)</u>	<u>2,257,029</u>
417,300	88,483	505,783
4,195,469	5,492,579	9,688,048
<u>\$ 4,612,769</u>	<u>\$ 5,581,062</u>	<u>\$ 10,193,831</u>

FUND BASIS FINANCIAL STATEMENTS

CITY OF SMITHVILLE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	General Fund	Total Nonmajor Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 473,756	\$ 47,829	\$ 521,585
Investments - current	332,778	389,083	721,861
Taxes receivable - delinquent	85,054	34,166	119,220
Allowance for uncollectible delinquent taxes	(8,505)	(3,417)	(11,922)
Accounts receivable	253,845	-	253,845
Intergovernmental receivable	-	12,438	12,438
Due from other funds	203,266	-	203,266
Prepaid items	10,841	-	10,841
Total Assets	<u>\$ 1,351,035</u>	<u>\$ 480,099</u>	<u>\$ 1,831,134</u>
LIABILITIES			
Accounts payable	\$ 40,801	\$ 8,615	\$ 49,416
Accrued salaries and benefits	93,666	1,447	95,113
Due to other funds	41,956	2,376	44,332
Unearned revenue	2,500	-	2,500
Other current liabilities	14,270	-	14,270
Total Liabilities	<u>193,193</u>	<u>12,438</u>	<u>205,631</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources-property taxes	76,548	30,750	107,298
Total deferred inflows of resources	<u>76,548</u>	<u>30,750</u>	<u>107,298</u>
FUND BALANCES			
Nonspendable:			
Prepays	10,841	-	10,841
Restricted:			
Debt service	-	359,020	359,020
Committed:			
Specific purposes	-	47,817	47,817
Capital projects	-	30,074	30,074
Assigned:			
Grant matching	175,000	-	175,000
Unassigned	895,453	-	895,453
Total Fund Balances	<u>1,081,294</u>	<u>436,911</u>	<u>1,518,205</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 1,351,035</u>	<u>\$ 480,099</u>	<u>\$ 1,831,134</u>

The notes to the financial statements are an integral part of this statement.

CITY OF SMITHVILLE, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 SEPTEMBER 30, 2016

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - governmental funds	\$ 1,518,205
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,860,707
The net pension asset is not an available resource and, therefore, is not reported in the funds.	(231,537)
Other long-term assets, such as uncollected property taxes, are not available to pay for and, therefore, are reported as unavailable revenue in the funds.	107,298
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(2,641,904)
Net position of governmental activities	<u>\$ 4,612,769</u>

The notes to the financial statements are an integral part of this statement.

CITY OF SMITHVILLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	General Fund	Total Nonmajor Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 881,605	\$ 293,055	\$ 1,174,660
Sales taxes	579,589	-	579,589
Hotel/motel taxes	23,985	-	23,985
Franchise taxes	75,285	-	75,285
Licenses and permits	29,828	-	29,828
Grants	281,368	167,420	448,788
Charges for services	897,533	-	897,533
Fines	79,593	-	79,593
Investment earnings	5,456	1,411	6,867
Contributions and donations	49,662	623	50,285
Miscellaneous revenue	233,037	-	233,037
Total revenues	<u>3,136,941</u>	<u>462,509</u>	<u>3,599,450</u>
EXPENDITURES			
Current:			
General government	382,651	1,100	383,751
Public safety	1,173,428	-	1,173,428
Highways and streets	548,465	-	548,465
Sanitation	580,092	-	580,092
Culture and recreation	905,417	42,321	947,738
Code enforcement and inspections	66,210	-	66,210
Cemetery	58,903	-	58,903
Airport	112,292	-	112,292
Economic development and assistance	87,466	-	87,466
Debt service:			
Bond principal	22,563	280,000	302,563
Interest	3,116	107,805	110,921
Capital outlay	108,958	130,613	239,571
Total expenditures	<u>4,049,561</u>	<u>561,839</u>	<u>4,611,400</u>
Excess (deficiency) of rev. over expenditures	<u>(912,620)</u>	<u>(99,330)</u>	<u>(1,011,950)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	1,110,228	108,096	1,218,324
Transfers out	(6,096)	(228)	(6,324)
Sale of general capital assets	113,961	-	113,961
Insurance recoveries	14,905	-	14,905
Total other financing sources (uses)	<u>1,232,998</u>	<u>107,868</u>	<u>1,340,866</u>
Net change in fund balance	320,378	8,538	328,916
Fund balance - beginning	760,916	428,373	1,189,289
Fund balance - ending	<u>\$ 1,081,294</u>	<u>\$ 436,911</u>	<u>\$ 1,518,205</u>

The notes to the financial statements are an integral part of this statement.

CITY OF SMITHVILLE, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 328,916
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays were exceeded by depreciation expense in the current period.	(224,222)
The net effect of various miscellaneous transactions involving property taxes is to increase net position.	2,273
The net effect of various miscellaneous transactions involving the City's net pension liability is to decrease net position.	(2,803)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	313,136
Change in net position - governmental activities	\$ 417,300

The notes to the financial statements are an integral part of this statement.

CITY OF SMITHVILLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 866,684	\$ 876,684	\$ 881,605	\$ 4,921
Sales taxes	520,600	579,851	579,589	(262)
Hotel/motel taxes	20,000	20,000	23,985	3,985
Franchise taxes	73,200	73,200	75,285	2,085
Licenses and permits	31,210	29,554	29,828	274
Grants	95,000	180,633	281,368	100,735
Charges for services	884,340	887,607	897,533	9,926
Fines	83,250	82,510	79,593	(2,917)
Investment earnings	5,000	5,000	5,456	456
Contributions and donations	44,664	44,664	49,662	4,998
Miscellaneous revenue	221,205	372,167	233,037	(139,130)
Total revenues	<u>2,845,153</u>	<u>3,151,870</u>	<u>3,136,941</u>	<u>(14,929)</u>
EXPENDITURES				
Current:				
General government	321,493	392,975	382,651	10,324
Public safety	1,165,361	1,178,727	1,173,428	5,299
Code enforcement and inspections	88,269	66,874	66,210	664
Highways and streets	432,932	552,006	548,465	3,541
Sanitation	616,293	580,943	580,092	851
Culture and recreation	931,765	910,805	905,417	5,388
Cemetery	76,374	59,430	58,903	527
Airport	103,295	113,299	112,292	1,007
Economic development and assistance	87,734	87,706	87,466	240
Debt service:				
Capital lease	22,563	22,563	22,563	-
Interest - capital lease	3,116	3,116	3,116	-
Capital outlay	108,958	108,958	108,958	-
Total Expenditures	<u>3,958,153</u>	<u>4,077,402</u>	<u>4,049,561</u>	<u>27,841</u>
Excess (deficiency) of revenues over expenditures	<u>(1,113,000)</u>	<u>(925,532)</u>	<u>(912,620)</u>	<u>12,912</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,110,000	1,110,000	1,110,228	228
Transfers out	-	-	(6,096)	(6,096)
Sale of general capital assets	-	-	113,961	113,961
Insurance recoveries	-	-	14,905	14,905
Total other financing sources (uses)	<u>1,110,000</u>	<u>1,110,000</u>	<u>1,232,998</u>	<u>122,998</u>
Net change in fund balances	(3,000)	184,468	320,378	135,910
Fund balance - beginning	760,916	760,916	760,916	-
Fund balance - ending	<u>\$ 757,916</u>	<u>\$ 945,384</u>	<u>\$ 1,081,294</u>	<u>\$ 135,910</u>

The notes to the financial statements are an integral part of this statement.

CITY OF SMITHVILLE, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2016

	Business-Type Activities		
	Utility Fund	Utility WWTP Sewer CO 2007	Total Proprietary Funds
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 703,923	\$ -	\$ 703,923
Investments - current	1,032,022	70	1,032,092
Accounts receivable, net	818,296	-	818,296
Grants receivable	65,006	-	65,006
Due from other funds	5,215	-	5,215
Inventories	46,183	-	46,183
Prepaid items	23,420	-	23,420
Total current assets	<u>2,694,065</u>	<u>70</u>	<u>2,694,135</u>
Noncurrent Assets:			
Land	173,319	-	173,319
Construction in progress	2,557,708	-	2,557,708
Infrastructure	13,276,035	-	13,276,035
Furnishings and equipment	1,136,472	-	1,136,472
Accumulated depreciation	(7,359,780)	-	(7,359,780)
Total noncurrent assets	<u>9,783,754</u>	<u>-</u>	<u>9,783,754</u>
Total assets	<u>12,477,819</u>	<u>70</u>	<u>12,477,889</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pension	124,360	-	124,360
Total deferred outflows of resources	<u>124,360</u>	<u>-</u>	<u>124,360</u>
LIABILITIES			
Current liabilities:			
Accounts payable	364,824	-	364,824
Salaries and benefits payable	33,619	-	33,619
Accrued liabilities	14,141	-	14,141
Retainage payable	21,985	-	21,985
Due to other funds	156,782	-	156,782
Accrued interest payable	56,125	-	56,125
Bonds payable - current	356,740	-	356,740
Customer deposits	96,471	-	96,471
Total current liabilities	<u>1,100,687</u>	<u>-</u>	<u>1,100,687</u>
Noncurrent Liabilities:			
Bonds payable	3,010,000	-	3,010,000
Capital leases	2,661,148	-	2,661,148
Net pension liability	189,705	-	189,705
Compensated absences	25,762	-	25,762
Total noncurrent liabilities	<u>5,886,615</u>	<u>-</u>	<u>5,886,615</u>
Total liabilities	<u>6,987,302</u>	<u>-</u>	<u>6,987,302</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension	33,885	-	33,885
Total deferred inflows of resources	<u>33,885</u>	<u>-</u>	<u>33,885</u>
NET POSITION			
Net investment in capital assets	3,755,866	-	3,755,866
Unrestricted	1,825,126	70	1,825,196
Total net position	<u>\$ 5,580,992</u>	<u>\$ 70</u>	<u>\$ 5,581,062</u>

The notes to the financial statements are an integral part of this statement.

CITY OF SMITHVILLE, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Business-Type Activities		
			Total
	Utility Fund	Utility WWTP Sewer CO 2007	Proprietary Funds
Operating revenues:			
Charges for services:			
Water sales	\$ 750,974	\$ -	\$ 750,974
Sewerage service	714,082	-	714,082
Electricity sales	4,659,522	-	4,659,522
Other charges for services	289,438	-	289,438
Grants	257,789	-	257,789
Miscellaneous revenue	42,850	-	42,850
Total operating revenues	<u>6,714,655</u>	<u>-</u>	<u>6,714,655</u>
Operating expenses:			
Personnel services	970,598	-	970,598
Purchased professional and technical services	325,964	-	325,964
Other purchased services	2,479,827	-	2,479,827
Other operating expenses	1,128,175	-	1,128,175
Depreciation	411,250	-	411,250
Total operating expenses	<u>5,315,814</u>	<u>-</u>	<u>5,315,814</u>
Operating income (loss)	1,398,841	-	1,398,841
Nonoperating revenues (expenses)			
Investment earnings	10,165	316	10,481
Gain on disposal of property	22,165	-	22,165
Interest expense	(131,004)	-	(131,004)
Total nonoperating revenues (expenses)	<u>(98,674)</u>	<u>316</u>	<u>(98,358)</u>
Income before transfers in (out)	1,300,167	316	1,300,483
Transfers in	997,570	-	997,570
Transfers out	(1,212,000)	(997,570)	(2,209,570)
Change in net position	1,085,737	(997,254)	88,483
Net position-beginning	4,495,255	997,324	5,492,579
Net position-ending	<u>\$ 5,580,992</u>	<u>\$ 70</u>	<u>\$ 5,581,062</u>

The notes to the financial statements are an integral part of this statement.

CITY OF SMITHVILLE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Business-Type Activities		
	Utility Fund	Utility WWTP Sewer CO 2007	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 7,002,352	\$ -	\$ 7,002,352
Receipt (return) of customer deposits	3,246	-	3,246
Other receipts	300,639	-	300,639
Payments to suppliers and service providers	(2,280,484)	-	(2,280,484)
Payments to employees for salaries and benefits	(961,742)	-	(961,742)
Payments to other funds for services provided	(2,740,835)	-	(2,740,835)
Net cash provided by (used for) operating activities	<u>1,323,176</u>	<u>-</u>	<u>1,323,176</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	997,570	-	997,570
Transfers to other funds	(1,212,000)	(997,570)	(2,209,570)
Change in net pension liability	81,180	-	81,180
Change in compensated absences	5,042	-	5,042
Net cash provided by (used for) capital and financing activities	<u>(128,208)</u>	<u>(997,570)</u>	<u>(1,125,778)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(3,865,636)	-	(3,865,636)
Capital leases	2,807,888	-	-
Principal paid on capital debt	(200,000)	-	(200,000)
Interest paid on capital debt	(131,004)	-	(131,004)
Gain on Sale of capital assets	22,165	-	22,165
Net cash provided by (used for) capital and related financing activities	<u>(1,366,587)</u>	<u>-</u>	<u>(1,366,587)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments	(513,674)	-	(513,674)
Proceeds from sale of investments	-	997,254	997,254
Interest on investments	10,165	316	10,481
Net cash provided by investing activities	<u>(503,509)</u>	<u>997,570</u>	<u>494,061</u>
Net increase (decrease) in cash and cash equivalents	<u>(675,128)</u>	<u>-</u>	<u>(675,128)</u>
Cash and cash equivalents-beginning	1,379,051	-	-
Cash and cash equivalents-ending	<u>\$ 703,923</u>	<u>\$ -</u>	<u>\$ 703,923</u>
Reconciliation of operating income (loss) to net cash provided (used for) operating activities:			
Operating income (loss)	\$ 1,398,841	\$ -	\$ 1,398,841
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation expense	411,250	-	411,250
(Increase) decrease in accounts receivable	588,336	-	588,336
(Increase) decrease in due from other funds	94,126	-	94,126
(Increase) decrease in inventories	4,471	-	4,471
(Increase) decrease in prepaid items	(101,272)	-	(101,272)
(Decrease) increase in accounts payable	348,775	-	348,775
(Decrease) increase in accrued salaries & compensated absences	8,856	-	8,856
(Decrease) increase in accrued items	(1,404,283)	-	(1,404,283)
(Decrease) increase in due to other funds	(29,170)	-	(29,170)
(Decrease) increase in deposits payable	3,246	-	3,246
Total adjustments	<u>(75,665)</u>	<u>-</u>	<u>(75,665)</u>
Net cash provided by (used for) operating activities	<u>\$ 1,323,176</u>	<u>\$ -</u>	<u>\$ 1,323,176</u>

The notes to the financial statements are an integral part of this statement.

CITY OF SMITHVILLE, TEXAS
 STATEMENT OF NET POSITION
 FIDUCIARY FUNDS
 SEPTEMBER 30, 2016

	Trust Fund
	HRA Fund
ASSETS	
Investments	\$ 75,963
Total assets	75,963
 LIABILITIES	
Due to other funds	7,367
Other liabilities	68,596
Total liabilities	\$ 75,963

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

I. Summary of significant accounting policies

A. Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting entity

The City of Smithville, Texas (the “City”) is a municipal corporation governed by an elected mayor and five-member governing Council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units are, in substance, part of the primary government’s operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. For the year ended September 30, 2016, based on the definition of a component unit, the City did not have any component units, blended or discretely presented. Nor, is the City a component unit of any other entity.

C. Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government’s enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

D. Basis of presentation – fund financial statements

The fund financial statements provide information about the City’s funds, including its fiduciary funds and blended component units. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental fund:

The *General Fund* is the City’s primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund. Additionally, the City’s Capital Replacement Fund is presented as part of the General Fund.

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

I. Summary of significant accounting policies (continued)

The City reports the following major enterprise funds:

The *Utility Fund* accounts for the activities of the City's utilities-electric, water, and wastewater.

The *Utility WWTP Sewer CO 2007 Fund* accounts for a portion of the utility fund's debt and the related proceeds of that debt.

Additionally, the City reports the following fund types:

Special revenue funds account for resources restricted by the grantor or committed by the City to specific purposes. Most federal and state financial assistance is accounted for in special revenue funds, and occasionally unused balances must be returned to the grantor after project completion.

The *capital projects funds* account for the acquisition and construction of the City's major capital facilities, other than those financed by proprietary funds.

The *Interest and Sinking Fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The *HRA Fund* is used to account for resources held in trust for employees which may be accessed for healthcare expenses.

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds or advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

I. Summary of significant accounting policies (continued)

transactions or events for recognition in the financial statements. The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

F. Budgetary information

1. Budgetary basis of accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and Interest and Sinking Fund. The capital projects fund is appropriated on a project-length basis. Other special revenue funds do not have appropriated budgets since other means control the use of these resources (e.g., grant awards and endowment requirements) and sometimes span a period of more than one fiscal year.

The appropriated budget is prepared by fund and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

I. Summary of significant accounting policies (continued)

facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

2. Excess of expenditures over appropriations

For the year ended September 30, 2016, expenditures did not exceed appropriations in the City's General Fund or the Interest and Sinking Fund.

G. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. Cash and cash equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

Investments for the City are reported at fair value (generally based on quoted market prices) except for positions in local government investment pools when applicable. In accordance with state law, these investment pools operate in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the pools qualify as 2a7-like pools and are reported at the net asset value per share, which approximates fair value, even though it is calculated using the amortized cost method. The pools are subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

3. Inventories and prepaid items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and utility operations repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital assets

Capital assets (which include property, plant, equipment, and infrastructure assets e.g. roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of more than one year.

CITY OF SMITHVILLE, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

I. Summary of significant accounting policies (continued)

As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation. Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

Capital asset classes	Lives
Buildings	40
Machinery and equipment	5
Vehicles	5
Improvements	7-40
Infrastructure	15-40

5. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6. Net position flow assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. Fund balance flow assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

I. Summary of significant accounting policies (continued)

the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

8. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation. Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The Council may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

H. Revenues and expenditures/expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property taxes

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The City levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll of January 1, 2015, upon which the levy for the fiscal year 2015-2016 was based, was \$188,069,931. Taxes are delinquent if not paid by February 1st of the following calendar year. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

I. Summary of significant accounting policies (continued)

The tax rates assessed for the year ended September 30, 2016, to finance General Fund and Interest and Sinking Fund operations were \$0.407492 and \$0.145946, respectively, for a total tax rate of \$0.553438 per \$100 valuation. The total tax levy for the General Fund and Interest and Sinking Fund for the fiscal year 2015-2016 was \$1,041,871. Tax collections, including collections of prior year delinquent balances, for the year ended September 30, 2016, were 99% of the year end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates for the year of the levy. Allowances for uncollectible taxes within the General Fund and Interest and Sinking Fund are based on historical experience in collecting taxes.

3. *Compensated absences*

Vacation

The City's policy permits employees to accumulate up to 144 hours of earned but unused vacation benefits, which are eligible for payment upon separation from government service. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

Sick Leave

Accumulated sick leave lapses when employees leave the employment of the City and, upon separation from service, no monetary obligation exists.

4. *Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

5. *Proprietary funds operating and nonoperating revenues and expenses*

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The Utility Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF SMITHVILLE, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. Items shown in summary form on that reconciliation are provided in detail below.

One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of this amount are as follows:

Detail of Capital Asset Reconciling Items:

Capital assets not being depreciated:	
Land	\$ 664,891
Capital assets, being depreciated	
Buildings and improvements	4,196,546
Machinery, equipment, and vehicles	2,083,805
Infrastructure	4,239,113
Accumulated depreciation	<u>(5,454,261)</u>
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u><u>\$ 5,860,707</u></u>

Another element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this amount are as follows:

Detail of Long-Term Debt Reconciling Items:

Bonds payable	\$ 2,500,000
Capital leases	72,729
Compensated absences	41,575
Accrued interest payable	<u>27,600</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u><u>\$ 2,641,904</u></u>

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

II. Reconciliation of government-wide and fund financial statements (continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. Items shown in summary form on that reconciliation are provided in detail below.

One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.” The details of this amount are as follows:

Detail of Capital Outlay and Depreciation Expense Items:

Capital outlay	\$ 239,571
Capital asset deletions	(57,814)
Depreciation expense	(405,979)

Net adjustment to increase <i>net changes in fund balance - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ (224,222)

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statements of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.” The details of this amount are as follows:

Detail of Long-Term Debt Revenue/Expense Items:

Debt issued or incurred:	
Interest accrual	\$ 2,334
Change in compensated absences	8,239
Principal repayments:	
General obligation debt	280,000
Capital lease financing	22,563

Net adjustment to decrease <i>changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ 313,136

CITY OF SMITHVILLE, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

III. Stewardship, compliance and accountability

A. Violations of legal or contractual provisions

No violations of legal or contractual provisions were noted during the current year.

B. Deficit fund equity

For the year ended September 30, 2016 there were no funds reported with deficit fund equity.

IV. Detailed notes on all activities and funds

A. Cash deposits with financial institutions

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. As of September 30, 2016, the City’s bank balance was \$1,469,196 and none of that amount was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging or financial institution’s trust department or agent, but not in the City’s name.

B. Investments

The Lone Star Investment Pool (the “Pool”) operates in accordance with state law, which requires it to meet all of the requirements of Rule 2a-7 of the Securities and Exchange Commission. See note I.G.2, *Investments*, for a discussion of how the shares in the Pool are valued. The Pool has a credit rating of AAA from Standard & Poor’s Financial Services. Local government investment pools in this rating category meet the highest standards for credit quality, conservative investment policies, and safety of principal. The Pool invests in a high quality portfolio of debt securities investments legally permissible for municipalities and school districts in the state. The City utilizes a pooled investment concept for all its funds to maximize its investment program. Investment income from this internal pooling is allocated to the respective funds based upon the sources of funds invested. State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer’s Investment Pool.

As of September 30, 2016, the City had the following investments:

Investment Type	Maturity Time in Years			
	Less than 1	1-5	6-10	More Than 10
Lone Star Investment Pool	\$ 955,069	\$ -	\$ -	\$ -
Certificates of Deposit	798,884	-	-	-
Total Investments	\$ 1,753,953	\$ -	\$ -	\$ -

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than ten months.

Credit risk. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the City’s policy to limit its investments in these investment types to the top rating issued by NRSROs.

CITY OF SMITHVILLE, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

Concentration of credit risk. The City's investment policy does not allow for an investment in any one issuer that is in excess of 5 percent of the City's total investments. This restriction however does not apply to government investment pools due to the low risk nature of this type of investment.

Custodial credit risk-investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

C. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for the general fund and the utility fund. Below is a detail of receivables for the major funds of both the governmental and proprietary funds of the City, including the applicable allowance for uncollectible accounts:

Governmental funds

Receivables	General Fund
Sales and mixed beverage taxes	\$ 93,127
Property liens	80,757
Grants	112,798
Gross receivables	286,682
Less: Allowance for uncollectibles	(32,837)
Net receivables	\$ 253,845

Proprietary Funds

Receivables	Major Fund 1
Utility billing	\$ 1,384,658
Gross receivables	1,384,658
Less: Allowance for uncollectibles	(566,362)
Net receivables	\$ 818,296

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

D. Capital Assets

Capital assets activity for the City's governmental activities for the year ended September 30, 2016, was as follows:

Governmental Activities:

	Balance 10/1/15	Increases	Decreases	Balance 9/30/16
Capital assets, not being depreciated:				
Land	\$ 563,292	\$ 101,599	\$ -	\$ 664,891
Construction in progress	-	130,613	-	130,613
Total capital assets, not being depreciated	<u>563,292</u>	<u>232,212</u>	<u>-</u>	<u>795,504</u>
Capital assets, being depreciated:				
Buildings and improvements	4,255,903	-	(59,357)	4,196,546
Machinery, equipment, and vehicles	2,152,553	7,359	(76,107)	2,083,805
Infrastructure	4,239,113	-	-	4,239,113
Total capital assets, being depreciated	<u>10,647,569</u>	<u>7,359</u>	<u>(135,464)</u>	<u>10,519,464</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,709,154)	(153,604)	7,543	(2,855,215)
Machinery, equipment, and vehicles	(1,919,301)	(66,422)	70,107	(1,915,616)
Infrastructure	(497,477)	(185,953)	-	(683,430)
Total accumulated depreciation	<u>(5,125,932)</u>	<u>(405,979)</u>	<u>77,650</u>	<u>(5,454,261)</u>
Total capital assets being depreciated, net	<u>5,521,637</u>	<u>(398,620)</u>	<u>(57,814)</u>	<u>5,065,203</u>
Governmental activities capital assets, net	<u>\$ 6,084,929</u>	<u>\$ (166,408)</u>	<u>\$ (57,814)</u>	<u>\$ 5,860,707</u>

Depreciation expense was charged to the functions/programs of the governmental activities of the primary government as follows:

Governmental activities:

General government	\$ 39,358
Public safety	120,350
Highways and streets	56,252
Sanitation	59,496
Culture and recreation	97,203
Code enforcement and inspections	6,791
Cemetery	6,041
Airport	11,517
Economic Development & Assistance	8,971
Total depreciation expense - governmental activities	<u>\$ 405,979</u>

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

Capital assets activity for the City’s business-type activities for the year ended September 30, 2016, was as follows:

Business-Type Activities:

	Balance 10/1/15	Increases	Decreases	Balance 9/30/16
Capital assets, not being depreciated:				
Land	\$ 173,319	\$ -	\$ -	\$ 173,319
Construction in progress	1,657,740	899,968	-	2,557,708
Total capital assets, not being depreciated	<u>1,831,059</u>	<u>899,968</u>	<u>-</u>	<u>2,731,027</u>
Capital assets, being depreciated:				
Machinery, equipment, and vehicles	1,016,559	226,240	(106,327)	1,136,472
Infrastructure	10,536,607	2,739,428	-	13,276,035
Total capital assets, being depreciated	<u>11,553,166</u>	<u>2,965,668</u>	<u>(106,327)</u>	<u>14,412,507</u>
Less accumulated depreciation for:				
Machinery, equipment, and vehicles	(837,503)	(85,412)	106,327	(816,588)
Infrastructure	(6,217,354)	(325,838)	-	(6,543,192)
Total accumulated depreciation	<u>(7,054,857)</u>	<u>(411,250)</u>	<u>106,327</u>	<u>(7,359,780)</u>
Total capital assets being depreciated, net	<u>4,498,309</u>	<u>2,554,418</u>	<u>-</u>	<u>7,052,727</u>
Business-type activities capital assets, net	<u>\$6,329,368</u>	<u>\$3,454,386</u>	<u>\$ -</u>	<u>\$ 9,783,754</u>

E. Defined Benefit Pension Plans

Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the city are required to participate in TMRS.

CITY OF SMITHVILLE, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Employees covered by benefit terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	26
Inactive employees entitled to but not yet receiving benefits	51
Active employees	59
	136

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Smithville were 7% and 6.18% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$142,066, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by a factor of 95%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2014	\$ 4,749,056	\$ 4,462,024	\$ 287,032
Changes for the year:			
Service cost	197,338	-	197,338
Interest	331,919	-	331,919
Change of benefit terms	-	-	-
Difference between expected and actual experience	24,762	-	24,762
Changes of assumptions	40,818	-	40,818
Contributions - employer	-	142,066	(142,066)
Contributions - employee	-	105,079	(105,079)
Net investment income	-	6,584	(6,584)
Benefit payments, including refunds of employee contr.	(212,038)	(212,038)	-
Administrative expense	-	(4,010)	4,010
Other changes	-	(198)	198
Net changes	382,799	37,483	345,316
Balance at 12/31/2015	\$ 5,131,855	\$ 4,499,507	\$ 632,348

CITY OF SMITHVILLE, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower 5.75% or 1-percentage-point higher 7.75% than the current rate:

	1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
City's net pension (liability)/asset	\$ (1,400,159)	\$ (632,348)	\$ 9,718

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the city recognized pension expense of \$132,703.

At September 30, 2016, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 17,436	\$ 112,953
Difference in assumptions	28,742	-
Net difference between projected and actual investment earnings	277,067	-
Contributions subsequent to the measurement date	91,289	-
Total	\$ 414,534	\$ 112,953

\$91,289 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended Dec 31,	Net deferred outflows (inflows) of resources
2016	\$ 16,659
2017	53,136
2018	79,344
2019	61,153
Total	210,292

CITY OF SMITHVILLE, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

Supplemental Death Benefit Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an other postemployment benefit, or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2016, 2015, and 2014 were \$4,984, \$1,051 and \$1,064, respectively, which equaled the required contributions each year.

F. Risk management

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During the year, the City purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and no settlements exceeding insurance coverage for each of the past three fiscal years.

G. Lease Obligations

1. Capital Lease

The City has executed a capital lease to finance the acquisition of three vehicles for the police department. The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2016, were as follows:

Year Ending September 30	Governmental Activities
2017	\$ 25,679
2018	25,679
2019	25,678
Total minimum lease payments	77,036
Less: amount representing interest	(4,307)
Present value of minimum lease payments	\$ 72,729

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

The City executed two capital leases for acquisition of equipment for business-type activities. The city also took a capital lease for purchase of smart meters through Qualified Energy Conservation Bond (QEBC) amounting to \$2,661,148. The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2016, were as follows:

Year Ending September 30	Business - Type Activities			
	Digger	Jet Machine	QEBC	Total
2017	\$ 37,426	\$ 11,692	\$ 227,950	\$ 277,068
2018	37,426	11,692	250,352	299,470
2019	37,426	11,692	247,881	296,999
2020	-	11,693	245,482	257,175
2021	-	-	216,398	216,398
2022-2026	-	-	1,179,195	1,179,195
2027-2031	-	-	1,100,668	1,100,668
Total minimum lease payments	112,278	46,769	3,467,926	3,626,973
Less: amount representing interest	(7,826)	(4,481)	(806,778)	(819,085)
Present value of minimum lease payments	<u>\$ 104,452</u>	<u>\$ 42,288</u>	<u>\$ 2,661,148</u>	<u>\$ 2,807,888</u>

H. Long-Term Liabilities

General Obligation Bonds

The City issues general obligation bonds and certificates of obligation to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and certificates of obligation have been issued for both governmental and business-type activities. These long-term debt instruments are direct obligations and pledge the full faith and credit of the government. General obligation bonds and certificates of obligation generally are issued with repayment scheduled to occur as equal amounts of principal maturing each year with maturities that range from 5 to 20 years.

Details of long-term debt obligations outstanding at September 30, 2016 are as follows:

Governmental Activities:

Type	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/16
Bonds Payable					
General Refunding Bonds, Series 2009	2009	\$ 2,210,000	2.50-4.75%	2024	\$ 1,530,000
General Refunding Bonds, Series 2005	2005	2,555,000	3.90%	2021	970,000
Total Bonds Payable					<u>\$ 2,500,000</u>
Capital Lease Payable					
Capital Lease	2015	\$ 117,750	3.70%	2019	\$ 72,729
Total Capital Lease Payable					<u>\$ 72,729</u>

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

Business-type Activities:

Type	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/16
General Obligation Bonds:					
General Refunding Bonds, Series 2007	2007	\$ 4,500,000	4.20%	2028	\$ 3,220,000
Total General Obligation Bonds					<u>\$ 3,220,000</u>
Capital Lease Payable					
Capital Lease Digger Truck	2016	\$ 174,240	3.70%	2019	\$ 104,452
Capital Lease Jet Machine	2016	52000	4.70%	2020	42,288
Capital Lease QECCB	2016	2661148	3.68%	2031	2,661,148
Total Capital Lease Payable					<u>\$ 2,807,888</u>

Changes in long-term liabilities

Changes in the City's long-term liabilities for the year ended September 30, 2016 are as follows:

Governmental Activities:

Description	Balance 10/1/15	Additions	Deletions	Balance 9/30/16	Due in One Year
Bonds Payable					
General refunding bonds	\$2,780,000	\$ -	\$ (280,000)	\$ 2,500,000	\$ 290,000
Total bonds payable	<u>2,780,000</u>	<u>-</u>	<u>(280,000)</u>	<u>2,500,000</u>	<u>290,000</u>
Capital leases	95,292	-	(22,563)	72,729	23,383
Net pension liability	200,922	241,721	-	442,643	-
Compensated absences	49,814	-	(8,239)	41,575	-
Governmental activities long-term liabilities	<u>\$3,126,028</u>	<u>\$ 241,721</u>	<u>\$ (310,802)</u>	<u>\$ 3,056,947</u>	<u>\$ 313,383</u>

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

Business-type Activities:

Description	Balance 10/1/15	Additions	Deletions	Balance 9/30/16	Due in One Year
Bonds Payable					
General refunding bonds	\$3,420,000	\$ -	\$ (200,000)	\$ 3,220,000	\$ 210,000
Total bonds payable	<u>3,420,000</u>	<u>-</u>	<u>(200,000)</u>	<u>3,220,000</u>	<u>210,000</u>
Capital Leases Payable					
Capital lease equipment	-	174,240	(69,788)	104,452	33,560
Capital lease equipment	-	52,000	(9,712)	42,288	9,821
Capital Lease QECCB	-	2,661,148	-	2,661,148	53,300
Total capital leases payable	<u>-</u>	<u>2,887,388</u>	<u>(79,500)</u>	<u>2,807,888</u>	<u>96,681</u>
Other Long Term Liabilities					
Net pension liability	86,110	103,595	-	189,705	-
Compensated absences	20,720	5,042	-	25,762	-
Total other long term liabilities payable	<u>106,830</u>	<u>108,637</u>	<u>-</u>	<u>215,467</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$3,526,830</u>	<u>\$2,996,025</u>	<u>\$ (279,500)</u>	<u>\$ 6,243,355</u>	<u>\$ 306,681</u>

The debt service requirements for the City's bonds are as follows:

Governmental Activities

Year Ended September 30,	<u>Governmental Activities</u>	
	<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 290,000	\$ 97,120
2018	300,000	86,065
2019	315,000	74,243
2020	335,000	61,440
2021	345,000	48,045
2022-2024	915,000	64,750
Totals	<u>\$ 2,500,000</u>	<u>\$ 431,663</u>

CITY OF SMITHVILLE, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

Business-type Activities

Year Ended September 30,	Business-Type Activities	
	Bonds Payable	
	Principal	Interest
2017	\$ 210,000	\$ 130,830
2018	215,000	121,905
2019	225,000	112,665
2020	235,000	103,005
2021	250,000	92,820
2022-2026	1,420,000	294,000
2027-2028	665,000	28,245
Totals	\$ 3,220,000	\$ 883,470

I. Interfund receivables and payables

The composition of interfund balances as of September 30, 2016 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Utility Fund	156,782
General Fund	General Fund	\$ 37,195
General Fund	Capital Projects Fund	1,276
General Fund	Special Revenue Fund	1,100
General Fund	Trust Fund	6,913
Utility Fund	General Fund	4,760
Utility Fund	Trust Fund	454
Total		\$ 208,480

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. These amounts also include balances of working capital loans made to several nonmajor governmental funds which the general fund expects to collect in the subsequent year.

CITY OF SMITHVILLE, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

J. Interfund transfers

The composition of interfund transfers for the year ended September 30, 2016 was as follows:

	Transfer in to:			
	<u>Governmental Funds</u>		<u>Enterprise Funds</u>	
	<u>General Fund</u>	<u>Nonmajor gov. funds</u>	<u>Utility Fund</u>	<u>Total</u>
Transfer out from:				
Utility Fund	\$ 1,110,000	\$ 102,000	\$ -	\$ 1,212,000
Utility WWTP Sewer CO 2007	-	-	997,570	997,570
General Fund	-	6,096	-	6,096
Nonmajor gov. funds		228		228
Total	<u>\$ 1,110,000</u>	<u>\$ 108,324</u>	<u>\$ 997,570</u>	<u>\$ 2,215,894</u>

During the year, recurring transfers are used to 1) move revenues from a fund with collection authority to another fund with related expenditure requirements, 2) move general fund resources to provide subsidies to other funds as needs arise, and 3) move resources from the utility fund to the general fund to subsidize governmental activities.

K. Contingencies

The City was not involved in any litigation at year-end that the City's attorney feels would result in a negative outcome or present any material liability to the City.

L. Subsequent events

The City has evaluated subsequent events through March 10, 2017, the date of the audit report. The City is not aware of any subsequent events that materially affect the financial statements and would require recording/disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SMITHVILLE, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Measurement Year	
	2014	2015
A. Total pension liability		
1. Service cost	\$ 171,454	\$ 197,338
2. Interest (on the Total Pension Liability)	326,676	331,919
3. Changes of benefit terms	-	-
4. Difference between expected and actual experience	(262,383)	24,762
5. Changes of assumptions	-	40,818
6. Benefit payments, including refunds of employee contributions	(135,516)	(212,038)
7. Net change in total pension liability	\$ 100,231	\$ 382,799
8. Total pension liability - beginning	4,648,825	4,749,056
9. Total pension liability - ending	<u>\$ 4,749,056</u>	<u>\$ 5,131,855</u>
B. Plan fiduciary net position		
1. Contributions - employer	\$ 29,724	\$ 142,066
2. Contributions - employee	99,355	105,079
3. Net investment income	241,945	6,584
4. Benefit payments, including refunds of employee contributions	(135,516)	(212,038)
5. Administrative expense	(2,526)	(4,010)
6. Other	(208)	(198)
7. Net change in plan fiduciary net position	\$ 232,774	\$ 37,483
8. Plan fiduciary net position - beginning	4,229,250	4,462,024
9. Plan fiduciary net position - ending	<u>\$ 4,462,024</u>	<u>\$ 4,499,507</u>
C. Net pension liability [A.9 - B.9]	<u>\$ 287,032</u>	<u>\$ 632,348</u>
D. Plan fiduciary net position as a % of the total pension liability [B.9 / A.9]	93.96%	87.68%
E. Covered-employee payroll	\$ 1,987,091	\$ 2,101,573
F. Net position as a percentage of covered employee payroll [C / E]	14.44%	30.09%

CITY OF SMITHVILLE, TEXAS
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Fiscal Year	
	2015	2016
Actuarially Determined Contribution	\$ 138,556	\$ 132,289
Contributions in relation to the actuarially determined contribution	<u>(138,556)</u>	<u>(132,289)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 2,049,642	\$ 2,140,771
Contributions as a percentage of covered employee payroll	6.8%	6.2%

CITY OF SMITHVILLE, TEXAS
NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50%; including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenue sources that are restricted, committed, or assigned to expenditures for particular purposes.

The *Railroad Park Fund* is used to account for park operations and activities.

The *Police Seized Asset Fund* is used to account for all the assets seized by the police department.

The *Skate Park Fund* was used to account for construction of the City's skate park. It currently has residual funds related to the park's construction.

The *2009 TXCDBG Project Fund* was used to account for the administration of the City's Community Development Block Grant. It currently has immaterial residual funds related to the grant.

The *HOMES Project Fund* is used to account for the City's HOMES grant.

The *Veterans Memorial Park Fund* is used to account for park operations and activities.

The *Smithville Cares Fund* is used to account for operations and activities of the City's Smithville Cares program.

The *PEG Capital Fee Fund* is used to account for specific City fees and franchise taxes.

The *Airport Fly-In Fund* is used to account for certain airport related activities.

The *Independence Park Fund* is used to account for park operations and activities.

Debt Service Fund

The *Interest & Sinking Fund*, also referred to as the debt service fund, is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of the City's governmental funds.

Capital Projects Funds

The *Bonds Projects Fund* is used to account for the acquisition and construction of the City's major capital facilities and projects financed through debt issuance, other than those financed by proprietary funds.

The *Rec Center GLO Expansion Grant* is used to account for construction and expansion of the City's Recreation Center.

The *TAP Loop 230 Sidewalk* is used to account for the construction and expansion of the Loop 230 sidewalks.

CITY OF SMITHVILLE, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Special Revenue Funds			
	Railroad Park	Police Seized Asset Fund	Skate Park	2009 TXCDBG Project
ASSETS				
Cash and cash equivalents	\$ 13,616	\$ 1,926	\$ 485	\$ 61
Investments - current	-	-	-	-
Taxes receivable - delinquent	-	-	-	-
Allowance for uncoll. taxes	-	-	-	-
Intergovernmental receivable	-	-	-	-
Total assets	<u>\$ 13,616</u>	<u>\$ 1,926</u>	<u>\$ 485</u>	<u>\$ 61</u>
LIABILITIES				
Accounts payable	-	-	-	-
Accrued salaries and benefits	-	-	-	-
Due to other funds	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources-property taxes	\$ -	\$ -	\$ -	\$ -
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted for:				
Debt service	-	-	-	-
Committed for:				
Specific purposes	13,616	1,926	485	61
Capital projects	-	-	-	-
Total fund balances	<u>13,616</u>	<u>1,926</u>	<u>485</u>	<u>61</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 13,616</u>	<u>\$ 1,926</u>	<u>\$ 485</u>	<u>\$ 61</u>

Special Revenue Funds							Debt Service Fund
HOMES Project	Cops Hiring Grant	Veterans Memorial Park	Smithville Cares	PEG Capital Fee	Airport Fly-In	Independence Park	Interest & Sinking Fund
\$ 201	\$ -	\$ 1,325	\$ 3,489	\$ 16,998	\$ 3,583	\$ 6,133	\$ -
-	-	-	-	-	-	-	359,021
-	-	-	-	-	-	-	34,166
-	-	-	-	-	-	-	(3,417)
1,100	2,723	-	-	-	-	-	-
<u>\$ 1,301</u>	<u>\$ 2,723</u>	<u>\$ 1,325</u>	<u>\$ 3,489</u>	<u>\$ 16,998</u>	<u>3,583</u>	<u>6,133</u>	<u>\$ 389,770</u>
-	-	-	-	-	-	-	-
-	1,447	-	-	-	-	-	-
1,100	1,276	-	-	-	-	-	-
<u>1,100</u>	<u>2,723</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$ -	\$ -	\$ -	\$ -	\$ -	-	-	\$ 30,750
-	-	-	-	-	-	-	30,750
-	-	-	-	-	-	-	359,020
201	-	1,325	3,489	16,998	3,583	6,133	-
-	-	-	-	-	-	-	-
<u>201</u>	<u>-</u>	<u>1,325</u>	<u>3,489</u>	<u>16,998</u>	<u>3,583</u>	<u>6,133</u>	<u>359,020</u>
<u>\$ 1,301</u>	<u>\$ 2,723</u>	<u>\$ 1,325</u>	<u>\$ 3,489</u>	<u>\$ 16,998</u>	<u>\$ 3,583</u>	<u>\$ 6,133</u>	<u>\$ 389,770</u>

	Capital Projects Funds			Total Non-Major Governmental Funds
	Bond Projects	Rec Center GLO Expansion Grant	TAP Loop 230 Sidewalk	
ASSETS				
Cash and cash equivalents	\$ -	\$ 12	\$ -	\$ 47,829
Investments - current	30,062	-	-	389,083
Taxes receivable - delinquent	-	-	-	34,166
Allowance for uncoll. taxes	-	-	-	(3,417)
Intergovernmental receivable	-	8,615	-	12,438
Total assets	<u>\$ 30,062</u>	<u>8,627</u>	<u>-</u>	<u>\$ 480,099</u>
LIABILITIES				
Accounts payable	-	8,615	-	\$ 8,615
Accrued salaries and benefits	-	-	-	1,447
Due to other funds	-	-	-	2,376
Total Liabilities	<u>-</u>	<u>8,615</u>	<u>-</u>	<u>12,438</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources-property taxes	\$ -	-	-	\$ 30,750
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,750</u>
FUND BALANCES				
Restricted for:				
Debt service	-	-	-	359,020
Committed for:				
Specific purposes	-	-	-	47,817
Capital projects	30,062	12	-	30,074
Total fund balances	<u>30,062</u>	<u>12</u>	<u>-</u>	<u>436,911</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 30,062</u>	<u>\$ 8,627</u>	<u>\$ -</u>	<u>\$ 480,099</u>

CITY OF SMITHVILLE, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Special Revenue Funds			
	Railroad Park	Police Seized Asset Fund	Skate Park	2009 TXCDBG Project
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ -
Grants and contributions	13,397	-	-	-
Investment earnings	49	3	3	-
Contributions from private sources	-	-	-	-
Total revenues	<u>13,446</u>	<u>3</u>	<u>3</u>	<u>-</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Culture and recreation	2,891	-	-	-
Debt service:				
Bond principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>2,891</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>10,555</u>	<u>3</u>	<u>3</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	1,923	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>1,923</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>10,555</u>	<u>1,926</u>	<u>3</u>	<u>-</u>
Fund balance - beginning	3,061	-	482	61
Fund balance - ending	<u>\$ 13,616</u>	<u>\$ 1,926</u>	<u>\$ 485</u>	<u>\$ 61</u>

Special Revenue Funds							Debt Service Fund
HOMES Project	Cops Hiring Grant	Veterans Memorial Park	Smithville Cares	PEG Capital Fee	Airport Fly-In	Independence Park	Interest & Sinking Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 293,055
1,100	24,447	-	-	-	2,036	-	-
-	-	43	33	91	16	34	988
-	-	623	-	-	-	-	-
1,100	24,447	666	33	91	2,052	34	294,043
1,100	-	-	-	-	-	-	-
-	24,447	13,936	-	-	746	301	-
-	-	-	-	-	-	-	280,000
-	-	-	-	-	-	-	107,805
-	-	-	-	-	-	-	-
1,100	24,447	13,936	-	-	746	301	387,805
-	-	(13,270)	33	91	1,306	(267)	(93,762)
-	-	-	-	-	-	-	102,000
-	-	-	-	-	(228)	-	-
-	-	-	-	-	(228)	-	102,000
-	-	(13,270)	33	91	1,078	(267)	8,238
201	-	14,595	3,456	16,907	2,505	6,400	350,782
\$ 201	\$ -	\$ 1,325	\$ 3,489	\$ 16,998	\$ 3,583	\$ 6,133	\$ 359,020

	Capital Project Funds			Total Non-Major Governmental Funds
	Bond Projects	Rec Center GLO Expansion Grant	TAP Loop 230 Sidewalk	
REVENUES				
Property taxes				
Grants and contributions	\$ -	\$ -	\$ -	\$ 293,055
Investment earnings	-	126,440	-	167,420
Contributions from private sources	139	12	-	1,411
Total revenues	-	-	-	623
	139	126,452	-	462,509
EXPENDITURES				
Current:				
General government				
Culture and recreation	-	-	-	1,100
Debt service:	-	-	-	42,321
Bond principal				
Interest	-	-	-	280,000
Capital outlay	-	-	-	107,805
Total expenditures	-	126,440	4,173	130,613
Excess (deficiency) of revenues over expenditures	-	126,440	4,173	561,839
	139	12	(4,173)	(99,330)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	4,173	108,096
Transfers out	-	-	-	(228)
Total other financing sources (uses)	-	-	4,173	107,868
Net change in fund balance	139	12	-	8,538
Fund balance - beginning	29,923	-	-	428,373
Fund balance - ending	\$ 30,062	\$ 12	\$ -	\$ 436,911

CITY OF SMITHVILLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 285,806	\$ 285,806	\$ 293,055	\$ 7,249
Investment earnings	-	-	988	988
Total revenues	<u>285,806</u>	<u>285,806</u>	<u>294,043</u>	<u>8,237</u>
EXPENDITURES				
Current:				
Debt service:				
Bond principal	280,000	280,000	280,000	-
Interest	107,806	107,806	107,805	1
Total Expenditures	<u>387,806</u>	<u>387,806</u>	<u>387,805</u>	<u>1</u>
Excess (deficiency) of revenues over expenditures	<u>(102,000)</u>	<u>(102,000)</u>	<u>(93,762)</u>	<u>8,238</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	102,000	102,000	102,000	-
Total other financing sources (uses)	<u>102,000</u>	<u>102,000</u>	<u>102,000</u>	<u>-</u>
Net change in fund balances	-	-	8,238	8,238
Fund balance - beginning	350,782	350,782	350,782	-
Fund balance - ending	<u>\$ 350,782</u>	<u>\$ 350,782</u>	<u>\$ 359,020</u>	<u>\$ 8,238</u>

OTHER SUPPLEMENTARY INFORMATION SECTION



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Honorable Mayor, Members of the City Council, and Citizens of the
City of Smithville, Texas:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Smithville, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Singleton, Clark & Company, PC". The signature is written in a cursive, flowing style.

Singleton, Clark & Company, PC
Cedar Park, Texas

March 10, 2017

CITY OF SMITHVILLE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

SECTION I – SUMMARY OF AUDITOR’S RESULTS

FINANCIAL STATEMENTS

Type of auditor’s report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

FEDERAL AWARDS

Under the guidelines of the federal Uniform Guidance, a Single Audit was not required for the year ended September 30, 2016 due to expenditures of federal awards being less than \$750,000.

SECTION II – FINANCIAL STATEMENT FINDINGS

Findings Related to Financial Statements Which are Required to be Reported in Accordance with Government Auditing Standards:

No findings or questioned costs were required to be reported in accordance with *Government Auditing Standards* for the years ended September 30, 2016 and 2015.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Findings Related to Federal Awards Which are Required to be Reported in Accordance with federal Uniform Guidance:

Not applicable for the year ended September 30, 2016 and no findings or questioned costs required to be reported in accordance with federal Uniform Guidance for the year ended September 30, 2015.